

**ONTONAGON AREA SCHOOL DISTRICT**

**REPORT ON FINANCIAL STATEMENTS**  
(with additional information)

For the Year Ended June 30, 2008

# ONTONAGON AREA SCHOOL DISTRICT

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	3-4
Management's Discussion and Analysis .....	5-13
Basic Financial Statements	
District – Wide Financial Statements	
Statement of Net Assets .....	14
Statement of Activities.....	15
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	17
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds.....	18
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	19
Fiduciary Fund	
Statement of Fiduciary Net Assets .....	20
Statement of Changes in Fiduciary Net Assets .....	21
Notes to Financial Statements .....	22-35
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund .....	37
Other Supplemental Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	39
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	41-42





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Ontonagon Area School District  
Ontonagon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ontonagon Area School District ("District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's Board of Education and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ontonagon Area School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants

Iron Mountain, Michigan  
October 30, 2008

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

Ontonagon Area School District's Management Discussion and Analysis is intended to assist the reader to focus on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position including its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2008.

***Management's Discussion and Analysis (MD&A)***  
(Required Supplemental Information)

Basic Financial Statements

***District-Wide Financial Statements***

***Fund Financial Statements***

Notes to the Basic Financial Statements

***(Required Supplemental Information)***  
(other than MD&A expanded)

As mentioned, GASB 34 requires the presentation of two basic types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

**District-Wide Financial Statements**

The District-Wide Financial Statements provide a perspective of the District as a whole. These financial statements use the full accrual basis of accounting similar to private sector companies. There are two District-Wide Financial Statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds: current financial resources (short-term available resources) with capital assets and long-term obligations, regardless of their current availability.

Consistent with the full accrual basis method of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Fund Financial Statements**

The Fund Financial Statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounts. Under this basis of accounting, revenues are recorded when received, except when they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants, and other intergovernmental revenues. The School Service Fund is comprised of Athletic Activities and Food Service. The Debt Retirement Fund is used to record the funding and payment of principal and interest on bonded debt. The Fiduciary Funds account for assets held by the District in a trustee capacity, or as an agent for various student groups and related activities.

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Financial Analysis of the District as a Whole**

Summary of Net Assets

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Assets:</b>		
Current assets	\$ 1,132,135	\$ 1,154,605
Net capital assets	1,089,360	1,181,374
Noncurrent assets	<u>64,908</u>	<u>72,326</u>
<b>Total assets</b>	<u>2,286,403</u>	<u>2,408,305</u>
<b>Liabilities:</b>		
Current liabilities	982,784	1,111,694
Long term liabilities	<u>2,196,945</u>	<u>2,364,073</u>
<b>Total liabilities</b>	<u>3,179,729</u>	<u>3,475,767</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	(1,246,544)	(1,308,473)
Restricted for debt service	236,380	188,180
Unrestricted	<u>116,838</u>	<u>52,831</u>
<b>Total net assets</b>	<u>\$ (893,326)</u>	<u>\$ (1,067,462)</u>

The School District's net assets (deficit) were \$(893,326) at June 30, 2008, compared to \$(1,067,462) at June 30, 2007. Total net assets can be separated into three categories: invested in capital assets, net of related debt, restricted assets for debt service, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets less accumulated depreciation and related debt. The original cost of capital assets was \$5,964,662 at June 30, 2008, and \$5,908,401 at June 30, 2007. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated use life of the assets. Total accumulated depreciation was \$4,875,302 at June 30, 2008, and \$4,727,027 at June 30, 2007. Total debt related to capital assets was \$2,335,904 at June 30, 2008, and \$2,489,847 at June 30, 2007.

Restricted assets for debt are funds, by their nature, restricted for use by laws or regulations by the State of Michigan. These funds totaled \$236,380 at June 30, 2008, compared to \$188,180 at June 30, 2007.

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

The remaining balance in unrestricted assets represents an excess balance of \$116,838 at June 30, 2008, and \$52,831 at June 30, 2007.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-Wide results of operations for the years ended June 30, 2008 and June 30, 2007 is as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Program revenue		
Charges for services-local	\$ 167,564	\$ 185,647
Operating grants - federal state local	<u>504,699</u>	<u>511,664</u>
Total program revenue	<u>672,263</u>	<u>697,311</u>
General revenue		
Property taxes levied for general operations	1,142,230	1,071,295
Property taxes levied for debt service	337,893	284,539
State of Michigan aid, unrestricted	3,433,790	3,567,787
Other- federal, state and local	<u>42,235</u>	<u>102,682</u>
Total general revenue	<u>4,956,148</u>	<u>5,026,303</u>
Total revenue	<u>5,628,411</u>	<u>5,723,614</u>
Expenses		
Instruction	2,995,353	3,209,410
Support services	1,792,791	2,160,047
School service	394,935	396,597
Interest on long term debt	90,203	105,161
Depreciation (unallocated)	<u>180,993</u>	<u>206,595</u>
Total expenses	<u>5,454,275</u>	<u>6,077,810</u>
Increase in net assets	174,136	(354,196)
Net Assets July 1	<u>(1,067,462)</u>	<u>(713,266)</u>
Net Assets June 30	<u>\$ (893,326)</u>	<u>\$ (1,067,462)</u>



Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS**

The overall condition of the governmental funds has increased during June 30, 2008 and June 30, 2007. In the General Fund, the excess of expenditures over revenues totaled \$82,031 during fiscal year June 30, 2008, and \$(454,917) during fiscal year June 30, 2007. The primary factors that contributed to this were staff reductions, minor increase in employee's insurance costs, and slight decrease in retirement costs.

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments are known. The most significant fund budgeted is the General Fund operations. The General Fund operating budget was amended two times during fiscal year 2008.

**General Fund Operations**

In the General Fund operations, the actual revenue for fiscal year June 30, 2008 was \$5,135,333. This is above the original budget of \$4,960,555 and below the final budget of \$5,031,700 - a variance of 2.06 %. The actual expenditures of the general fund for fiscal year June 30, 2008 operations were \$4,852,302. This is above the original budget of \$4,893,930 and below the final budget of \$4,900,010 - a variance of (0.97)%.

The variances between the actual revenues and the original and final revenue budgets are due primarily to the following.

- Adjustment of state aid to actual enrollment numbers,
- Adjustment of federal grant funds when confirmation of allocations was received.
- Adjustment of federal national forest revenues to actual.
- Decrease in interest earnings.
- Increase in donations
- New Isolated District funding on June State Aid

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

The variances between the actual expenditures and the original and final expenditure budgets are due primarily to the following.

- Staff realignment
- Elimination of alternative school program
- Union contract settlements.
- Increased cost of utilities (heating, diesel fuel, electricity) during fiscal year.
- Technology maintenance and supply budgets not expended.
- Capital outlay budgets eliminated
- Less severance benefit costs than budgeted
- Capital improvement budget not expended
- Various supply budgets not expended.

### GOVERNMENTAL FUND EXPENDITURES

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	Total Expenditures June 30, 2008	Percentage	Total Expenditures June 30, 2007	Percentage
General Fund	\$ 4,852,302	86.57%	\$ 5,536,525	89.02%
Nonmajor Funds	<u>752,472</u>	<u>13.43%</u>	<u>682,857</u>	<u>10.98%</u>
Total Expenditures	<u>\$ 5,604,774</u>	<u>100.00%</u>	<u>\$ 6,219,382</u>	<u>100.00%</u>

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**TOTAL REVENUES**

Below is a summary of the governmental fund revenues and their percentages as they relate to governmental funds.

	Total Revenue June 30, 2008	Percentage	Total Revenue June 30, 2007	Percentage
State of Michigan Aid unrestricted	\$ 3,433,790	60.07%	\$ 3,567,787	61.74%
Prop taxes general operation	1,142,230	19.98%	1,071,295	18.54%
Operating grants federal state local	504,699	8.83%	511,664	8.85%
Prop taxes debt retirement	337,893	5.91%	284,539	4.92%
Charges for services - local	167,564	2.93%	185,647	3.21%
Other federal state local	130,147	2.28%	157,682	2.73%
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Revenues	<u>\$ 5,716,323</u>	<u>100.00%</u>	<u>\$ 5,778,614</u>	<u>100.00%</u>

**Unrestricted State Aid**

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State aid membership was 593.80 for fiscal year June 30, 2008 and 610.90 for fiscal year June 30, 2007.

**Property Taxes**

The District levies 17.9208 mills of property taxes on all Non-Homestead property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value.

The District levied 2.9 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations.

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**Operating Grants Federal, State, and Local**

The primary sources are the Federal Title One Program, the State funded At Risk Program and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title One and At Risk Programs assist students who are deemed to be at risk in the instruction process. For the 2007-2008 fiscal year, the District has utilized \$91,086 for the Title One and \$157,549 for the State At Risk programs. For fiscal year 2008 the State, under the Headlee amendment, is obligated to remit to the District \$131,733.

**ENROLLMENT**

The District's 2007-2008 fall enrollment totaled 550. Ontonagon Area School District is located in Michigan's Upper Peninsula and continues to work through difficult economic times.

Enrollment changes over the last ten years can be illustrated as follows:

<u>Fiscal Year</u>	<u>(Fall) Student Enrollment</u>	<u>Increase (Decrease) in Student Enrollment</u>
2008	550	(47)
2007	597	(36)
2006	633	1
2005	632	(25)
2004	657	10
2003	647	(11)
2002	658	3
2001	655	(20)
2000	675	(17)
1999	692	(42)
1998	734	(20)

Student enrollment is important to the financial health of the District because state funding is based on a per pupil formula.

Ontonagon Area School District  
Management Discussion and Analysis  
(Unaudited)  
For the Fiscal Year Ended June 30, 2008

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year 2008, the District had \$5,964,662 invested in land and building, furniture and equipment, vehicles and buses compared to \$5, 908,401 at June 30, 2007. Of this amount, \$4, 875,302 and \$4,727,027 has been depreciated at June 30, 2008 and June 30, 2007 respectively. Net book value totaled \$1,089,359 at June 30, 2008, and \$1,181,374 at June 30, 2007. Due to budget constraints related to declining enrollment and the State of Michigan financial status, the ability to maintain these buildings is becoming increasingly difficult. The District maintains a \$500 threshold for capitalization of assets.

**Outstanding Debt at Year End**

As of June 30, 2008 the District had \$2,205,829 in bonds outstanding, compared to \$2,334,829 at June 30, 2007. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional bond debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of the Ontonagon Area School District. For additional detailed financial information contact:

Linda Karttunen  
Business Services Manager  
Ontonagon Area School District  
301 Greenland Road  
Ontonagon, MI 49953  
Office Telephone (906) 884-4963  
Fax Telephone (906) 884-2057

# ONTONAGON AREA SCHOOL DISTRICT

## STATEMENT OF NET ASSETS (DEFICIT)

June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and equivalents	\$ 174,916
Investments	255,021
Accounts receivable	26,139
Inventory	27,631
Due from other governments	<u>648,428</u>
Total current assets	<u>1,132,135</u>
Noncurrent assets:	
Other assets	64,908
Capital assets	5,964,662
Accumulated depreciation	<u>(4,875,302)</u>
Total noncurrent assets	<u>1,154,268</u>
TOTAL ASSETS	<u>2,286,403</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	134,194
Accrued interest	22,122
Accrued expenses	396,646
Due to other governments	151,663
Deferred revenues	19,698
Compensated absences	13,295
Notes payable	36,883
Bonds payable	<u>208,283</u>
Total current liabilities	<u>982,784</u>
Noncurrent liabilities:	
Compensated absences	106,207
Notes payable	93,192
Bonds payable	<u>1,997,546</u>
Total noncurrent liabilities	<u>2,196,945</u>
TOTAL LIABILITIES	<u>3,179,729</u>
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(1,246,544)
Restricted for debt service	236,380
Unrestricted	<u>116,838</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (893,326)</u>

The accompanying notes to the financial statements are an integral part of this statement.





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## ONTONAGON AREA SCHOOL DISTRICT

### STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT:				
Governmental Activities:				
Instruction	\$ 2,995,353	\$ -	\$ 333,092	\$ -
Support	1,792,791	52,142	68,473	-
School service	394,935	115,422	103,134	-
Depreciation	180,993	-	-	-
Debt interest, fees and expenses	90,203	-	-	-
				(2,662,261)
				(1,672,176)
				(176,379)
				(180,993)
				(90,203)
TOTAL PRIMARY GOVERNMENT	5,454,275	167,564	504,699	(4,782,012)

#### General revenues:

Property taxes	\$ 1,480,123
State revenue sharing	3,433,790
Unrestricted investment earnings	21,681
Other	20,554
Total general revenues and transfers	4,956,148
Changes in net assets	174,136
Net assets (deficit), beginning of year	(1,067,462)
Net assets (deficit), end of year	\$ (893,326)

The accompanying notes to the financial statements are an integral part of this statement.

# ONTONAGON AREA SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2008

	General	Debt Service	Nonmajor Governmental	Total Governmental Funds
<b>ASSETS:</b>				
Cash and equivalents	\$ 53,363	\$ 115,113	\$ 6,440	\$ 174,916
Investments	235,466	19,555	-	255,021
Accounts receivable	26,139	-	-	26,139
Inventory	20,528	-	7,103	27,631
Due from other funds	55,584	36,804	-	92,388
Due from other governments	648,428	-	-	648,428
Other assets	-	64,908	-	64,908
<b>TOTAL ASSETS</b>	<u>\$ 1,039,508</u>	<u>\$ 236,380</u>	<u>\$ 13,543</u>	<u>\$ 1,289,431</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ 131,660	\$ -	\$ 2,534	\$ 134,194
Due to other funds	88,385	-	4,003	92,388
Due to other governmental units	151,663	-	-	151,663
Accrued expenses	148,625	-	-	148,625
Salaries payable and related items	248,021	-	-	248,021
Deferred revenue	19,698	-	-	19,698
<b>TOTAL LIABILITIES</b>	<u>788,052</u>	<u>-</u>	<u>6,537</u>	<u>794,589</u>
<b>FUND BALANCE AND OTHER CREDITS:</b>				
Fund balances:				
Reserved	-	236,380	-	236,380
Unreserved-Designated	150,790	-	-	150,790
Unreserved-Undesignated	100,666	-	7,006	107,672
<b>TOTAL FUND BALANCE AND OTHER CREDITS</b>	<u>251,456</u>	<u>236,380</u>	<u>7,006</u>	<u>494,842</u>
<b>TOTAL LIABILITIES, FUND BALANCE AND OTHER</b>	<u>\$ 1,039,508</u>	<u>\$ 236,380</u>	<u>\$ 13,543</u>	<u>\$ 1,289,431</u>





ONTONAGON AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

For the Year Ended June 30, 2008

Total fund balances for governmental funds	\$ 494,842
--	------------

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Total capital assets	5,964,662	
Accumulated depreciation	<u>(4,875,302)</u>	
Net capital assets		1,089,360

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (22,122)	
Bonds payable	(2,205,829)	
Notes payable	(130,075)	
Compensated absences	<u>(119,502)</u>	<u>(2,477,528)</u>
Total net assets of governmental activities		<u>\$ (893,326)</u>



# ONTONAGON AREA SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

	General	Debt Service	Nonmajor Governmental	Total Governmental Funds
REVENUES:				
Local sources	\$ 1,285,799	\$ 337,893	\$ 115,541	\$ 1,739,233
State sources	3,428,360	-	24,423	3,452,783
Federal sources	186,469	-	103,133	289,602
<b>TOTAL REVENUES</b>	<b>4,900,628</b>	<b>337,893</b>	<b>243,097</b>	<b>5,481,618</b>
EXPENDITURES:				
Instruction:				
Current	2,962,867	-	-	2,962,867
Capital outlay	14,613	-	-	14,613
Supporting services:				
Current	1,782,184	-	-	1,782,184
Capital outlay	30,068	-	67,844	97,912
Debt service	-	289,693	-	289,693
School service activities	-	-	394,935	394,935
<b>TOTAL EXPENDITURES</b>	<b>4,789,732</b>	<b>289,693</b>	<b>462,779</b>	<b>5,542,204</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	110,896	48,200	(219,682)	(60,586)
OTHER FINANCING SOURCES (USES):				
Payments received from other governmental units	146,623	-	-	146,623
Transfers in	-	-	201,000	201,000
Other sources	88,082	-	-	88,082
Other (uses)	(62,570)	-	-	(62,570)
Transfers out	(201,000)	-	-	(201,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(28,865)</b>	<b>-</b>	<b>201,000</b>	<b>172,135</b>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	82,031	48,200	(18,682)	111,549
FUND BALANCE, JULY 1	169,425	188,180	25,688	383,293
FUND BALANCE, JUNE 30	\$ 251,456	\$ 236,380	\$ 7,006	\$ 494,842



**ONTONAGON AREA SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds	\$ 111,549
---	------------

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense \$(180,993) exceeded capital outlay \$88,979.	(92,014)
---	----------

Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

New debt:

Notes payable	\$ (87,947)	
---------------	-------------	--

Principal repayments:

Bond principal	200,000	
Notes payable	<u>41,890</u>	153,943

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	1,168
Accrued interest	<u>(510)</u>
Changes in net assets of governmental activities	<u>\$ 174,136</u>



**ONTONAGON AREA SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

June 30, 2008

	Expendable Trust Fund	Non-Expendable Trust Fund	Agency Fund
	Scholarships	Scholarships	Student Activity
ASSETS:			
Cash & Investments	\$ 4,670	\$ 4,740	\$ 45,236
LIABILITIES:			
Accounts payable	-	-	-
Due to student groups	-	-	45,236
NET ASSETS:			
Reserved	\$ 4,670	\$ 4,740	\$ -

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

**ONTONAGON AREA SCHOOL DISTRICT**

**CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

For the Year Ended June 30, 2008

	Expendable Trust Fund <u>Scholarships</u>	Non -Expendable Trust Fund <u>Scholarships</u>
ADDITIONS:		
Interest and contributions	<u>237</u>	<u>-</u>
TOTAL ADDITIONS	<u>237</u>	<u>-</u>
DEDUCTIONS:		
Scholarships / Charges	<u>-</u>	<u>-</u>
TOTAL DEDUCTIONS	<u>-</u>	<u>-</u>
Change in net assets	237	-
NET ASSETS:		
BEGINNING OF YEAR	<u>4,433</u>	<u>4,740</u>
NET ASSETS:		
END OF YEAR	<u>\$ 4,670</u>	<u>\$ 4,740</u>

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Ontonagon Area School District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the statement include the following:

An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all the District's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statement.

#### **A. Reporting Entity**

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it has been determined that there are no component units of the Ontonagon Area School District.

#### **B. Basic Financial Statements – Government-Wide Statements**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities except for fiduciary activities.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basic Financial Statements – Government-Wide Statements (Continued)**

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities,

##### **C. Basic Financial Statements – Fund Financial Statements**

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types in two broad fund categories as follows:

Governmental Funds - Governmental funds are used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities, except for those accounted for in fiduciary funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial transactions of the District, except those required to be accounted for in other funds.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basic Financial Statements – Fund Financial Statements (Continued)**

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Fund to account for the Ontonagon Area School District's activity.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds – Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Expendable Trust Fund – The expendable trust fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Non-Expendable Trust Fund – The non-expendable trust fund is accounted for utilizing the accrual method of accounting. Non-expendable trust funds account for assets of which the principal may not be spent.

Agency Fund – The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity (primarily student activities).

Account Groups - Account groups are used to establish accounting control and accountability for the District's general fixed assets and long-term obligations. The following are the District's account groups:

General Fixed Assets – This group of accounts was established to account for all general fixed assets of the District.

General Long-Term Obligations - This group of accounts has been established to account for unmatured general long-term obligations and certain other liabilities of the District not expected to be liquidated through the use of available expendable financial resources.





## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### D. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. The governmental-wide statement uses the economic resources measurement focus.

##### Accrual

Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

##### Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after the year end. A one year period is used for revenue recognition for all other governmental fund revenues. Those revenues prone to accrual are property taxes, federal aid, interest-revenue, and charges for services.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**State Foundation Revenue** - For the fiscal year ended June 30, 2008, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Measurement Focus and Basis of Accounting (Continued)**

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

##### **E. Cash and Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

##### **F. Interfund Balances and Transfers**

The current portion of lending/borrowing arrangements between funds are identified as "due to/from other funds". The non-current portion of outstanding balances between funds are reported as "advances to/from other funds". Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources.

Transfers represent a flow of assets without equivalent flows of assets in return or a requirement for repayment.

##### **G. Inventories and Prepaid Items**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

##### **H. Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### H. Capital Assets (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

The District has adopted a capitalization policy of \$500.

##### I. Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

##### J. Compensated Absences

Amounts representing accumulated vacation and personal leave expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the government fund that will pay it.

##### K. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized as revenue when levied to the extent they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

The District, along with certain other governmental units, is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Property Taxes (Continued)**

###### Fund Mills

General Fund - Non-Homestead

17.9208

Debt Retirement

2.9

##### **L. Unemployment Insurance**

The District reimburses the Michigan Employment Security Commission (MESC) for the actual amount of unemployment benefits disbursed by the MESC on behalf of the District. Billings received for amounts paid by the MESC through June 30 are accrued.

##### **M. Fund Balance**

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". Designated fund balances represents amounts set aside by the governing body for specific purposes such as capital improvements.

##### **N. Budgets**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types.
2. Public hearings are conducted to obtain taxpayer comments.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **N. Budgets (Continued)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget, or in excess of the amount appropriated. Any material expenditures in violation of the budgeting act are disclosed in the footnotes.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

The budget for the year ended June 30, 2008 was adopted on June 17, 2007 and formally amended on January 21, 2008 and June 23, 2008.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

#### **NOTE 2 - CASH AND EQUIVALENTS- CREDIT RISK**

##### **Deposits**

The District's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 750
Checking accounts	143,357
Savings accounts	<u>30,809</u>
TOTAL	<u>\$174,916</u>



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 2 - CASH AND EQUIVALENTS- CREDIT RISK (Continued)**

##### Deposit Risk

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, the District's deposits were uninsured and uncollateralized in the amount of \$115,113.

##### Investments

The District's investments, as reported in the Statement of Net Assets, consisted of the following:

Michigan Liquid Asset Fund (MILAF)	<u>\$255,021</u>
------------------------------------	------------------

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Investments are recorded at fair market value, which is based on quoted market prices.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are with the Michigan Liquid Asset Fund (MILAF) which consists of different funds including mutual funds with a high degree of liquidity, thus the District's investments are not subject to interest rate risk.



# **ONTONAGON AREA SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

### **NOTE 3 - INTERFUND BALANCES AND TRANSFERS**

Interfund receivables and payables for the year ended June 30, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General fund	\$55,584	General fund	\$88,385
Debt service	36,804	Nonmajor governmental	4,003
Total	<u>\$92,388</u>		<u>\$92,388</u>

Interfund transfers for the year ended June 30, 2008 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Nonmajor governmental	<u>\$130,000</u>	General Fund	<u>\$130,000</u>

### **NOTE 4 - CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2008 follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Land	\$ 8,500	\$ -	\$ -	\$ 8,500
Land improvements	453,289	-	-	453,289
Building	2,874,964	46,400	-	2,921,364
Equipment	1,917,146	25,667	(32,718)	1,910,095
Vehicles	<u>654,502</u>	<u>16,912</u>	<u>-</u>	<u>671,414</u>
TOTALS	5,908,401	<u>\$ 88,979</u>	<u>\$ (32,718)</u>	5,964,662
Accumulated Depreciation	<u>(4,727,027)</u>	<u>\$ (180,993)</u>	<u>\$ 32,718</u>	<u>(4,875,302)</u>
Net Fixed Assets	<u>\$ 1,181,374</u>			<u>\$ 1,089,360</u>

Depreciation for the year ended June 30, 2008, amounted to \$180,993. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Included in equipment above are two copier lease-purchases totaling \$35,314 with accumulated depreciation of \$14,125 at June 30, 2008. Total net asset value at June 30, 2008 was \$21,189.



# **ONTONAGON AREA SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

### **NOTE 5 – LONG-TERM OBLIGATIONS**

During the year ended June 30, 2008, the following changes occurred in long-term obligations:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
General Obligation Bonds	\$ 2,334,829	\$ 71,000	\$(200,000)	\$ 2,205,829	\$208,283
Loans payable	125,534	16,947	(35,403)	107,078	29,663
Lease purchase	29,484	-	(6,487)	22,997	7,220
Vested compensated absences	120,669	9,376	(10,543)	119,502	13,295
<b>TOTALS</b>	<b>\$ 2,610,516</b>	<b>\$ 97,323</b>	<b>\$(252,433)</b>	<b>\$ 2,455,406</b>	<b>\$258,461</b>

### **NOTE 6 - BONDS AND NOTES PAYABLE**

Long-term obligations at June 30, 2008 is comprised of the following amounts:

1. 1998 Durant Bonds due in annual installments from \$4,141 to \$19,547 through May 15, 2013, with interest at 4.76%.  
\$ 34,829  
  
The annual State of Michigan appropriation is the only revenue source for making the annual payments on the Durant Bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.
  2. 2005 Refunding Bonds due in annual installments of \$185,000 to \$270,000 through May 1, 2017 with interest at 3% to 4%.  
2,105,000
  3. 2007 Energy Conservation Improvement Bonds due in annual installments of \$5,000 to \$10,000 through May 1, 2017 with interest at 7%.  
66,000
  4. Bus Contracts payable at interest rates of 3.95% to 5.75%. All loans are secured by the buses.  
107,078
  5. Two 10.75% copier lease-purchases. In the original amount of \$35,314, the lease-purchases are payable \$779 monthly including interest. The leased equipment is collateral and the agreements mature in May, 2011.  
22,997
  6. Vested compensated absences.  
119,502
- TOTAL LONG-TERM OBLIGATIONS** **\$2,455,406**





# ONTONAGON AREA SCHOOL DISTRICT

## **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

### **NOTE 6 - BONDS AND NOTES PAYABLE (Continued)**

The annual requirements to amortize long-term obligations outstanding as of June 30, 2008 are as follows:

Year Ended June 30	Bond Issues		Lease Purchases and Installment Notes		Compensated Absences	Total
	Principal	Interest	Principal	Interest		
2009	\$ 208,283	\$ 85,050	\$ 36,883	\$ 6,522	\$ 13,295	\$ 350,033
2010	219,439	78,043	38,268	4,441	-	340,191
2011	241,380	77,021	38,568	2,247	-	359,216
2012	235,774	61,456	13,816	697	-	311,743
2013	245,953	52,348	2,540	49	106,207	407,097
2014-2018	1,055,000	108,890	-	-	-	1,163,890
TOTALS	<u>\$ 2,205,829</u>	<u>\$ 462,808</u>	<u>\$ 130,075</u>	<u>\$ 13,956</u>	<u>\$ 119,502</u>	<u>\$ 2,932,170</u>

Interest expense for the year ended June 30, 2008 was \$97,188.

### **NOTE 7 - COMPENSATED ABSENCES**

At June 30, 2008 accumulated non-vested sick time amounted to \$3,452. Non-vested, unused sick time does not vest and so is not included in the general long-term debt account group.

### **NOTE 8 - FUND BALANCES**

Portions of fund balances are reserved or designated and not available for general purposes other than fund usage as follows:

	<u>Reserved</u>	<u>Unreserved Designated</u>
Debt Service	\$236,380	\$ -
General Fund:	-	
Technology capital expenditures	-	65,790
Severance expenses	-	35,000
Major building expenditures	-	50,000
Totals	<u>\$236,380</u>	<u>\$150,790</u>



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

**Funding Policy** – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent for the period July 1, 2007 through September 30, 2007 and 16.72 percent for October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were \$460,256, \$508,012 and \$450,712.

**Post Employment Benefits** – Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above..

#### **NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participated in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.



## ONTONAGON AREA SCHOOL DISTRICT

### **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

(Continued)

#### **NOTE 11 - USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE 12 - SIGNIFICANT ESTIMATES**

Included in footnote 9 is a summary of the employee retirement plan provisions and actuarial assumptions. The actuarial assumptions are very critical to the computation of actuarial determined liabilities of the plan. If the assumptions differ from actual results annual contributions to the defined benefit plan can substantially change.

#### **NOTE 13 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Public Act 621 of 1978, as amended, provides that a school district shall not incur expenditures in excess of amounts appropriated. The District budgeted expenditures on a functional basis.

During the year ended June 30, 2008, the District incurred expenditures in a certain account which was in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Expended</u>	<u>Total Appropriated</u>	<u>Excess Expenditure Amount</u>
General Fund:			
Transfers Out	<u>\$201,000</u>	<u>\$130,000</u>	<u>\$(71,000)</u>





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

REQUIRED SUPPLEMENTAL INFORMATION

# ONTONAGON AREA SCHOOL DISTRICT

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis) (See Note 1)
	Original	Final	
REVENUES:			
Local sources	\$ 1,217,755	\$ 1,271,580	\$ 1,285,799
State sources	3,373,680	3,342,025	3,428,360
Federal sources	188,120	203,275	186,469
TOTAL REVENUES	4,779,555	4,816,880	4,900,628
EXPENDITURES:			
Instruction:			
Current	3,021,680	2,978,025	2,962,867
Capital outlay	-	14,800	14,613
Supporting services:			
Current	1,812,250	1,836,885	1,782,184
Capital outlay	15,000	11,800	30,068
TOTAL EXPENDITURES	4,848,930	4,841,510	4,789,732
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(69,375)	(24,630)	110,896
OTHER FINANCING SOURCES (USES):			
Payments received from other governmental units	126,000	137,075	146,623
Other sources	55,000	77,745	88,082
Other (uses)	(45,000)	(58,500)	(62,570)
Transfers out	(130,000)	(130,000)	(201,000)
TOTAL OTHER FINANCING SOURCES (USES)	6,000	26,320	(28,865)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(63,375)	1,690	82,031
FUND BALANCE, JULY 1	169,425	169,425	169,425
FUND BALANCE, JUNE 30	\$ 106,050	\$ 171,115	\$ 251,456

The accompanying notes to the financial statements are an integral part of this statement.





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

OTHER SUPPLEMENTAL INFORMATION

**ONTONAGON AREA SCHOOL DISTRICT**

**BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2008

	Food Service	Athletics	Capital Projects	Total Nonmajor Governmental
ASSETS:				
Cash and equivalents	\$ (24,497)	\$ 27,741	\$ 3,196	\$ 6,440
Inventory	7,103	-	-	7,103
Due from other funds	10,010	-	-	10,010
<b>TOTAL ASSETS</b>	<b>\$ (7,384)</b>	<b>\$ 27,741</b>	<b>\$ 3,196</b>	<b>\$ 23,553</b>
LIABILITIES:				
Accounts payable	\$ 94	\$ 2,440	\$ -	\$ 2,534
Due to other funds	-	14,013	-	14,013
<b>TOTAL LIABILITIES</b>	<b>94</b>	<b>16,453</b>	<b>-</b>	<b>16,547</b>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Unreserved-Undesignated	(7,478)	11,288	3,196	7,006
<b>TOTAL FUND BALANCE AND OTHER CREDITS</b>	<b>(7,478)</b>	<b>11,288</b>	<b>3,196</b>	<b>7,006</b>
<b>TOTAL LIABILITIES, FUND BALANCE AND OTHER</b>	<b>\$ (7,384)</b>	<b>\$ 27,741</b>	<b>\$ 3,196</b>	<b>\$ 23,553</b>

The accompanying notes to the financial statements are an integral part of this statement.



**ONTONAGON AREA SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2008

REVENUES:	Food Service	Athletics	Capital Projects	Total Nonmajor Governmental
Local sources	\$ 92,272	\$ 23,229	\$ 40	\$ 115,541
State sources	24,423	-	-	24,423
Federal sources	103,133	-	-	103,133
<b>TOTAL REVENUES</b>	<b>219,828</b>	<b>23,229</b>	<b>40</b>	<b>243,097</b>
EXPENDITURES:				
Supporting services:				
School service activities	260,374	134,561	-	394,935
Capital outlay	-	-	67,844	67,844
<b>TOTAL EXPENDITURES</b>	<b>260,374</b>	<b>134,561</b>	<b>67,844</b>	<b>462,779</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(40,546)	(111,332)	(67,804)	(219,682)
OTHER FINANCING SOURCES (USES):				
Transfers in	15,000	115,000	71,000	201,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>15,000</b>	<b>115,000</b>	<b>71,000</b>	<b>201,000</b>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(25,546)	3,668	3,196	(18,682)
<b>FUND BALANCE, JULY 1</b>	<b>18,068</b>	<b>7,620</b>	<b>-</b>	<b>25,688</b>
<b>FUND BALANCE, JUNE 30</b>	<b>\$ (7,478)</b>	<b>\$ 11,288</b>	<b>\$ 3,196</b>	<b>\$ 7,006</b>

The accompanying notes to the financial statements are an integral part of this statement.





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Ontonagon Area School District  
Ontonagon, Michigan

We have audited the financial statements of Ontonagon Area School District as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ontonagon Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ontonagon Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ontonagon Area School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontonagon Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. PLLC*

ANDERSON, TACKMAN & COMPANY, PLLC  
Certified Public Accountants  
Iron Mountain, Michigan

October 30, 2008

ANDERSON, TACKMAN  
& COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

